

**From:** Howard Strong

**Subject:** Comments on Regulation DD - Truth In Savings [R-1197]

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Proposal: Regulation DD - Truth In Savings  
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Comments:

@@@The Feds proposed exemption of overdraft "protection" from Regulation Z and Truth in Lending Act coverage is one of the most anti-bank-customer proposals to come down the pike in many years. There is absolutely no good reason for exempting what are, in many cases, predatory practices and loans from Reg. z and TILA protections. The Fed.'s proposals should be revised to provide full disclosure and consumer protection by including overdraft protection within the coverage of Reg. z and TILA.

See the New York Times Editorial "Untruth in Lending" on this subject immediately below.

Untruth in Lending

New York Times Editorial Page  
Published: June 12, 2004

Banks can charge overdrawn customers steep fees for what amount to short-term loans. But they are not required to disclose the loans' effective interest rates, which can reach into the triple digits on an annualized basis. Through these fees, some 1,500 financial institutions prey on mostly low-income customers, and the Federal Reserve Board appears willing to condone the behavior by going along with the absurd fiction that this bounce protection is a service, not an extension of credit.

The Fed should change its tune. The banks should at least be made to disclose the ongoing costs of this form of credit, as required by the federal truth-in-lending law.

Whether banks call it bounce protection or overdraft privilege, they are lending money. In recent reports by the Fed and other federal banking regulators, the practice is even referred to as "credit" and "loans."

Common decency also requires that the fees be disclosed. The "protection" kicks in not only when a customer writes a check without having enough funds to cover it, but also when the customer uses an A.T.M. or a debit card to make a withdrawal or purchase for more than the funds on deposit. Rather than being obligated to give such a customer a chance to void the transaction and avoid a high fee, a bank can inform the customer by mail that the account has been overdrawn, and that delay can have potentially dire financial consequences.

By offering this account feature mainly to customers who have automatic deposits for paychecks or government benefits, the banks can implicitly encourage overspending without any risk of not being repaid. Truth-in-lending disclosures cover other lenders that, in effect, get away with usury, like tax-preparation firms that offer "refund anticipation loans" against customers' tax refunds and check-cashing outfits that offer "payday loans" against customers' next paychecks. The banks offering bounce protection may not want to admit that they engage in the same kind of short-term, high-cost lending, but they are, and the Fed should regulate them accordingly.

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